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GROUSE
MOUNTAIN
RESORTS LTD.

annual report 1971



GROUSE MOUNTAIN RESORTS LTD. Annual Report 1971

Grouse Mountain Resorts Ltd.

Officers of the Company

ANDREW E. SAXTON, *Chairman of the Board*
JOHN E. HOEGG, *President*
GOWAN T. GUEST, *Secretary*

Directors

DAVID S. BEATTY, *Toronto*
ELWYN E. GREGG, *Vancouver*
JOHN E. HOEGG, *Vancouver*
ARTHUR PHILLIPS, *Vancouver*
PETER PAUL SAUNDERS, *Vancouver*
ANDREW E. SAXTON, *Vancouver*
GEORGE D. SHERWOOD, *Vancouver*
CHARLES R. WHITE, *Victoria*

Offices of the Company

Executive Office: #507 – 1030 West Georgia Street, Vancouver 5, B.C.
Skyride Office: 5100 Capilano Road, North Vancouver, B.C.
Undersea Gardens Office: 490 Belleville Street, Victoria, B.C.

Grouse Mountain Resorts

JOHN E. HOEGG, *President*
JOHN B. STOKES, *General Manager*
GEORGE V. BIGA, *Manager, Restaurant Division*

Pacific Undersea Gardens

JOHN E. HOEGG, *President*
PETER A. TREDGETT, *General Manager*

Undersea Garden Managers

LESLIE WOOD, *Victoria*
JAMES C. WILLIAMSON, *Newport*
MRS. NORMA B. SAUNDERS, *Crescent City*

Auditors

Price Waterhouse & Co.

Banks

Bank of British Columbia
The Bank of Montreal
National Security Bank of Oregon
Wells Fargo Bank
Toronto-Dominion Bank

Solicitors

Robson, Alexander & Guest

Transfer Agent and Registrar

Yorkshire and Canadian Trust Limited

Trustees

National Trust Company, Limited

DIRECTORS' REPORT 1971

Fiscal 1971 has been a year that has seen Grouse Mountain Resorts recover from its economic setback of 1970, extend its internal operations into the restaurant and souvenir business and expand externally through investment in the aerial tramway project at Hell's Gate in the Fraser Canyon.

The consolidated pre-tax loss of \$26,485 recorded in fiscal 1970 has been replaced by a positive figure of \$171,818, while cash flow from operations has doubled from \$272,882 to \$547,117 — a reflection of a series of traffic records achieved throughout the year. While the fluctuating weather pattern may tend to identify the company as having a "good" winter or a "bad" summer, final financial performance can only reveal what has occurred on a year around basis, and in this regard it is pleasing to report to you a Skyride traffic total that passed the 400,000 level for the first time in history. We believe this figure has placed Grouse ahead of all other aerial tramways in North America. The actual count was 405,097 and, with the addition of 31,953 persons who utilized the Village Inn chairlift, Grouse Mountain welcomed a total of 437,050 visitors during the twelve months ended May 31st, 1971.

The past winter season provided a healthy boost to the firm's traffic totals for fiscal 1971. A high snow base permitted late season skiing, contributing to a total of 286,289 visitors during the last six months of the year compared to 197,844 during the "big snow" year of 1968-69. Aiding this performance was the company's record sale of 4,506 season's passes, a 44 percent increase that is perhaps the most encouraging development of the year as it followed the disappointing "snowless" 1969-70 season. This factor, more than any other, creates a high level of confidence in predicting continued long-term growth in the winter sports market, independent of the fluctuating weather pattern that is such a basic uncontrollable factor in our business.

Last winter's operation included three individual days when traffic exceeded 5,000 persons. This total was successfully accommodated by the introduction of revised day and night skiing hours, new swing shifts and increased usage of the Village Inn chairlift. These changes gave our customers more on-hill time, and coupled with the extensive daily grooming of the ski slopes and expansion of other services (*i.e. public address announcements, improved line-up procedures, new information signs, checkroom facilities, ski patrol assistance, etc.*) created a high degree of customer satisfaction and goodwill while attaining the optimum use of corporate assets.

Management efforts, directed over the past two years toward improvement of the ratio of weekday to weekend skiers and to solving the classic industry problem of ski-lift over-capacity and under-capacity, saw the 1970-71 season bring this situation into better balance than ever before in the history of the company. It is not uncommon to find ski areas operating with a ratio of ten customers on a weekend day to one during a mid-week day. This year saw Grouse Mountain Resorts improve its ratio from 5:1 to approximately 2½:1. In effect, more people are getting more skiing time and the company is getting more use out of its ski facilities.

The heavy traffic experienced this past year has also brought with it increased usage of the Skyride, ski-lifts, public buildings and utility systems, necessitating expanded work to preserve the appearance and operating efficiency of these facilities. This important maintenance function and the simultaneous daily packing of the ski slopes throughout the season represent priority considerations of management, reflecting the significance of such services and their attendant expenses.

While certain revenue was realized during the year through operation of auxiliary attractions (*i.e. peak chairlift, art gallery, games room, etc.*), the foremost activity affecting Grouse Mountain Resorts' 1971 financial picture has been the company's entry into the restaurant and souvenir business formerly carried out on Grouse Mountain by an independent operator.

Review of the corporation's consolidated balance sheet and statement of earnings will reveal significant departures from the established ratios and guidelines used to measure performance of previous years. Unlike the capital intensive transportation business, this new activity brings with it financial statements characterized by larger inventories, and operating costs varying in more direct proportion to revenue.

Specific balance sheet increases may be noted in inventories (*i.e. food, beverage and souvenirs*) and accounts payable (*i.e. related liabilities*). Significant changes also appear in the consolidated statement of earnings with revenue rising \$829,096 and operating, general and administrative expenses \$575,982. In all cases the major impact came from this new business which Grouse Mountain assumed on November 1st, 1970 and operated through the unfavourable winter months until the May 31st year-end, and which recorded a loss of \$42,574 during this start-up period. The absorption of one-time costs and the operating experience gained during this time have led to a favourable turnaround in the 1971 summer season, the results of which will soon be available for publication in the first-quarter report to shareholders. It is now apparent that the company can expect this division to be a major contributor to profits in the ensuing years.

As mentioned above, Grouse Mountain Resorts enjoyed a twelve month cash flow from operations of \$547,117, 27 percent ahead of the record achieved in fiscal 1969. The largest portion of these funds was utilized mid-year to purchase for redemption 203,681 (69%) of the then outstanding 6% first preference shares of Grouse Mountain Resorts. This transaction had the effect of removing the potential dilution through their possible conversion

into common shares and, as it was made at 80.5 cents per share below par value, simultaneously added \$163,964 to the company's surplus position. Most of the remaining preference shares converted one for one into common prior to the expiry of the conversion privilege on June 30 with the result that only 11,270 of these particular shares remained outstanding thereafter.

Cash generated during the year was also applied to certain capital expenditures including basic mechanical and loading improvements to the Skyride and various ski-lifts, expansion of slope lighting, addition of snow clearing and grooming machines, modernization of building facilities and restaurant equipment and completion of the mountain plateau sewage and utility systems. Certain expenditures were also effected in the Village Inn Restaurant and the lower chairlift as these attractions were re-activated for summertime use and for weekend service during the peak winter months.

Operating results of Pacific Undersea Gardens present a diverse picture with acceptable earnings achieved at two sites being offset by the loss of a third.

The largest garden in the system – Victoria – produced a 20 percent increase in gross revenue over fiscal 1970. Maintenance of operating expenses at approximately the same level as the previous year resulted in most of this revenue accruing to pre-tax earnings, an encouraging improvement achieved during a year when the difficult economic situation prevailing in neighbouring Seattle and elsewhere affected visitor traffic to Vancouver Island. Special promotions and exceptional contributions of management time to community projects such as the "Victoria Days" program helped further establish the Victoria garden as a major contributor to the city's tourist industry.

The company's most profitable undersea garden, in Newport, Oregon, continued its five-year trend of steady advancement in gross revenue and net earnings, reflecting the sound

operation and capable management associated with this business, both in terms of internal administration and external guidance received from our 25 percent minority partners, Lincoln Development Company.

Crescent City Undersea Gardens recorded a decided revenue advance from the 1970 start-up year and did achieve an approximate cash break-even position. However, after providing for depreciation, negative results of such degree as to off-set the positive earnings of both Victoria and Newport were recorded. Efforts are being extended to improve promotion activities in the Northern California area, endeavouring to assist this business to maintain an upward revenue trend during the current summer.

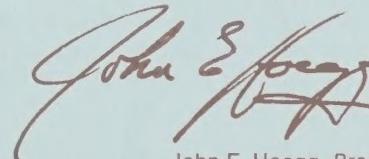
The franchise vessel formerly located at Santa Barbara, California was moved to Marina del Rey last fall. The ensuing shutdown and re-installation work kept it out of business for most of the year, thereby eliminating most of the royalty income normally accruing from this operation. Contact work for other possible sites concentrated on opportunities in Japan, Hong Kong and the Caribbean.

Grouse Mountain Resort's investment in Canyon Aerial Tramways, first announced in January of this year, has grown steadily from an initial position equal to 33% of common share capital to 42%, as your company provided increasing support to the cash needs of the firm during the late construction and development phase. Inevitable delays in various construction matters, from the delivery of electrical controls for the aerial tramway to the necessary alteration in access bridges, exhibit buildings and supporting utility systems postponed opening until mid-summer, and it was not until July 20, 1971, the day British Columbia celebrated its 100th anniversary in Confederation that the company received its first passenger, a gentleman from California who parked near the top terminal for two days in order to be the first customer to ride the Hell's Gate Airtram to the famous fish ladders. Although considerable finishing work remains, the basic facility is now in full operation providing a new and dramatic educational experience to all those who stop at this well-known location in the Fraser Canyon.

Returning again to Grouse Mountain, we are pleased to report that the 1970-71 winter season saw record performance levels being achieved by the ski shop operated by Ski World (who have since expanded into other locations in Vancouver, Calgary and Banff) by Ornulf Johnsen's popular ski school and by Grouse Mountain Tyees, whose well-trained participants captured numerous race awards throughout the Pacific Northwest. Further expansion is forecast for next winter with a projected increase in general skier traffic, all of which leads your company to examine its long-range growth pattern, with particular emphasis now being placed on the effective utilization of the firm's extensive landholdings (*illustrated on the inside front cover*) and the attendant resort development opportunities.

The performance level achieved this year shows every indication of further advance in fiscal 1972, and the Board of Directors would like to extend a special note of appreciation to the many staff members who are contributing to this goal.

On behalf of the Board of Directors,



John E. Hoegg, President.



GROUSE MOUNTAIN RESORTS LTD. Consolidated Balance Sheet May 31, 1971 (Notes 1 and 2)

ASSETS

	1971	1970
CURRENT ASSETS:		
Cash	\$ 121,046	\$ 148,700
Accounts receivable	57,303	65,462
Income taxes recoverable	3,196	7,001
Inventories, at the lower of cost and market	165,081	83,658
Prepaid expenses	40,563	18,119
	<u>387,189</u>	<u>322,940</u>
Investment in Canyon Aerial Tramways Ltd., at cost (Note 3)	<u>169,919</u>	—
FIXED ASSETS, at cost:		
Buildings, tramway, chairlifts and other mountain equipment	4,468,749	4,309,863
Undersea gardens vessels, machinery and equipment	870,808	859,685
	<u>5,339,557</u>	<u>5,169,548</u>
<i>Less: Accumulated depreciation</i>	<u>1,500,555</u>	<u>1,161,496</u>
Land and land improvements	3,839,002	4,008,052
	<u>391,896</u>	<u>391,896</u>
	<u>4,230,898</u>	<u>4,399,948</u>
Patents, at cost less accumulated amortization of \$65,182 (1970 – \$52,102)	<u>156,384</u>	<u>169,464</u>
UNAMORTIZED DEBENTURE DISCOUNT	<u>26,571</u>	<u>28,389</u>
	<u><u>\$4,970,961</u></u>	<u><u>\$4,920,741</u></u>

LIABILITIES

	1971	1970
CURRENT LIABILITIES:		
Bank loans and indebtedness (Note 4)	\$ 96,004	\$ 20,000
Accounts payable and accrued liabilities	228,170	170,677
Long term debt due within one year	143,608	486,496
Owing to former preference shareholders (Note 8)	82,491	—
	<u>550,273</u>	<u>677,173</u>
LONG TERM DEBT:		
Term bank loan, repayable by December 31, 1974 – less \$100,000 (1970 – \$400,000) included in current liabilities (Note 4)	300,000	—
Notes payable (secured), repayable in equal monthly instalments to 1986, less portion due within one year included in current liabilities	188,000	199,853
Term contracts payable (secured), less \$32,498 (1970 – \$75,085) included in current liabilities	—	10,997
	<u>488,000</u>	<u>210,850</u>
7% convertible redeemable sinking fund debentures maturing June 15, 1986 (Note 5)	629,000	631,000
Obligations to shareholders (Note 7)	48,500	48,500
	<u>1,165,500</u>	<u>890,350</u>
DEFERRED INCOME TAXES (Note 9)	<u>137,445</u>	<u>50,311</u>
MINORITY INTERESTS IN SUBSIDIARY COMPANIES (Note 7)	<u>230,900</u>	<u>229,633</u>
	<u><u>2,084,118</u></u>	<u><u>1,847,467</u></u>

SHAREHOLDERS' EQUITY

	May 31		
	1971	1970	
SHARE CAPITAL (Notes 5 to 8)	2,755,701	3,186,393	
SURPLUS:			
Contributed surplus (Note 8)	179,678	15,714	
Deficit	<u>(48,536)</u>	<u>(128,833)</u>	<u>131,142</u>
			(113,119)
CONTINGENT LIABILITIES (Notes 3 and 9)	<u>2,886,843</u>	<u>3,073,274</u>	
	<u><u>\$4,970,961</u></u>	<u><u>\$4,920,741</u></u>	

APPROVED ON BEHALF OF THE BOARD:

Director

Andrew E. Sletten

Director

John E. Keay

Consolidated Statement of Earnings and Deficit For the Year Ended May 31, 1971 (Notes 1 and 2)

	1971	1970
REVENUE:		
Revenue from operations	\$2,382,753	\$1,489,664
Other income	<u>18,803</u>	<u>82,796</u>
	<u>2,401,556</u>	<u>1,572,460</u>
EXPENSES:		
Operating, general and administrative	1,775,664	1,199,682
Depreciation (<i>Note 10</i>)	<u>351,074</u>	<u>275,289</u>
Patent amortization (<i>Note 10</i>)	<u>13,080</u>	<u>13,080</u>
Interest on long term debt	<u>83,014</u>	<u>92,091</u>
Other interest	<u>5,639</u>	<u>16,258</u>
Minority interest in net earnings of subsidiary	<u>1,267</u>	<u>2,545</u>
	<u>2,229,738</u>	<u>1,598,945</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	<u>171,818</u>	<u>(26,485)</u>
INCOME TAXES (<i>Note 9</i>):		
Current	4,386	(6,785)
Deferred	<u>87,135</u>	<u>39,590</u>
	<u>91,521</u>	<u>32,805</u>
NET EARNINGS (LOSS) FOR THE YEAR (<i>Note 11</i>)	<u>80,297</u>	<u>(59,290)</u>
DEFICIT AT BEGINNING OF YEAR:		
Previously reported	117,681	64,603
Adjustments of prior periods (<i>Note 2</i>)	<u>11,152</u>	<u>4,940</u>
Restated	<u>128,833</u>	<u>69,543</u>
DEFICIT AT END OF YEAR	<u>\$ 48,536</u>	<u>\$ 128,833</u>

Consolidated Statement of Source and Application of Working Capital For the Year Ended May 31, 1971

	1971	1970
SOURCE:		
Net earnings (loss) for the year	\$ 80,297	\$ (59,290)
Add: Depreciation, deferred income taxes and other non-cash charges	<u>466,820</u>	<u>332,172</u>
Working capital from operations	<u>547,117</u>	<u>272,882</u>
Term bank loan	400,000	—
Cash proceeds from issue of common shares	<u>26,125</u>	<u>1,087,110</u>
Proceeds from disposal of fixed assets	<u>4,200</u>	<u>—</u>
	<u>977,442</u>	<u>1,359,992</u>
APPLICATION:		
Additions to fixed assets, net in 1970 of \$260,700 financed by issue of shares	198,756	736,835
Reduction in long term debt	<u>122,850</u>	<u>526,434</u>
Investment in Canyon Aerial Tramways Ltd., less \$19,919 financed by issue of shares	<u>150,000</u>	<u>—</u>
Purchase of 6% first preference shares	<u>314,687</u>	<u>—</u>
	<u>786,293</u>	<u>1,263,269</u>
INCREASE IN WORKING CAPITAL	<u>191,149</u>	<u>96,723</u>
WORKING CAPITAL AT BEGINNING OF YEAR	<u>(354,233)</u>	<u>(450,956)</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ (163,084)</u>	<u>\$ (354,233)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MAY 31, 1971

NOTE 1 — Principles of consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries. Current assets and current liabilities in United States currency have been translated into Canadian funds at the rate of exchange in effect at the balance sheet date, other assets and liabilities at historical rates, and items entering into net earnings at the average rate for the year.

NOTE 2 — Adjustments of prior periods:

Certain costs of maintaining the ski slopes which had been capitalized as fixed assets in prior years have now been determined to be recurring in nature. To conform prior years to the accounting treatment adopted in 1971, the financial statements for 1970 have been restated to reflect as expenses of that year \$12,784 of ski slope grooming costs previously capitalized, less related deferred income taxes of \$6,572, and deficit at the beginning of 1970 has been restated to reflect similar costs of prior years aggregating \$10,166, less related deferred income taxes of \$5,226.

Income taxes payable of \$15,078 were deferred in 1970 by claiming additional capital cost allowances for income tax purposes and an appropriate reclassification to deferred income taxes has been made in the accounts for that year.

NOTE 3 — Investment in Canyon Aerial Tramways Ltd.:

During the year ended May 31, 1971 the company acquired a 36% interest in Canyon Aerial Tramways Ltd. for \$150,000 and 8,476 common shares of Grouse Mountain Resorts Ltd. Subsequently, the company increased its interest to approximately 42% and advanced \$63,770 to Canyon Aerial Tramways Ltd. in exchange for unsecured 15% subordinated debentures convertible to common shares after July 1, 1972 at the rate of one common share for each \$1 of debentures. Similar debentures have been issued to other common shareholders and if all parties elect to invest and convert rateably there will be no change in the relative interests.

Additionally, the company has guaranteed a bank loan to Canyon Aerial Tramways Ltd. on a basis proportionate to its shareholder interest in that company and its maximum guarantee was \$197,400 at August 31, 1971.

NOTE 4 — Term bank loan:

During the year, the company arranged with its bankers to borrow up to \$1,000,000 of which \$400,000 has been borrowed on a term loan basis and is to be repaid in equal annual instalments on December 31, 1971 through December 31, 1974. Of the balance of the credit available \$25,000 had been borrowed at May 31, 1971.

The company has undertaken to secure these bank loans by issuing a \$1,000,000 debenture providing a first fixed and floating charge on the company's assets, by providing an assignment of its book debts and by pledging all of its owned shares in and advances to Pacific Undersea Gardens Ltd., a consolidated subsidiary.

NOTE 5 — Debentures payable:

Purchase fund requirements for 1971 through 1977 have been met by conversions and redemptions to date. The outstanding debentures are convertible at the option of the holders into common shares of the company, at the rate of 431 shares per \$1,000 of debentures to June 30, 1971 (406 shares thereafter).

NOTE 6 — Share capital:

The following changes took place in share capital during the year ended May 31, 1971:

- (a) 7,500 7% second preference shares at \$1 per share, 14,000 common shares at \$1.25 per share and 750 common shares at \$1.50 per share were issued upon exercise of stock options.
- (b) 25,700 6% first preference shares and 7,500 7% second preference shares were converted into like numbers of common shares, which resulted in 33,200 additional common shares being authorized.

(c) 203,681 6% first preference shares were purchased for cancellation at \$1.545 per share (see Note 8).

- (d) 8,476 common shares were issued at a stated value of \$2.35 in exchange for 19,920 common shares of Canyon Aerial Tramways Ltd.
- (e) \$2,000 of debentures were converted into 862 common shares.

After the foregoing transactions, the share capital of the company as at May 31, 1971 was as follows:

Authorized —

*324,462 6% non-cumulative redeemable first preference shares with a nominal or par value of \$2.35 each, convertible to common to June 30, 1971 on a share for share basis at which time 11,270 shares remained outstanding and unconverted.	<u>\$ 762,486</u>
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*2,675,538 common shares without nominal or par value	
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*after giving effect to applications prior to May 31, 1971 for conversion of 18,400 6% preference shares into common shares.

Outstanding —

65,124 6% preference shares, of which 53,854 were converted to common prior to July 1, 1971	\$ 153,041
1,467,340 common shares	<u>2,602,660</u>
	<u>\$2,755,701</u>

NOTE 7 — Reserved shares:

At May 31, 1971, 72,900 common shares have been reserved for outstanding stock options as follows:

2,500 shares at \$7.50 per share, exercisable on or before July 31, 1971 (none exercised).

8,250 shares at \$1.50 per share, exercisable as to 3,750 shares before June 1, 1972 and as to 4,500 shares on or after June 1, 1972 and prior to the close of business on May 31, 1973.

14,000 shares at \$3.465 per share, exercisable in the fiscal years ending May 31, as follows: 5,000 in 1972, 5,000 in 1973 and 4,000 in 1974.

6,000 shares at \$2.60 per share, exercisable as to 3,000 shares in each of the fiscal years ending May 31, 1972 and 1973.

42,150 shares at \$1.25 per share, exercisable as to 400 shares on or

after June 1, 1971 and prior to June 1, 1972, as to 23,000 shares on or after June 1, 1971 and prior to June 1, 1973, as to 13,750 shares on or after June 1, 1972 and prior to June 1, 1974, and as to 5,000 shares on or after June 1, 1973 and prior to June 1, 1975.

Under the merger agreement with Pacific Undersea Gardens Ltd., the company issued 32,000 transferable five year warrants which entitle the holders to buy common shares of the company for \$4.00 up to July 2, 1974 upon surrender of the warrants.

The agreement also calls for the company to issue up to 68,125 common shares at \$4.00 per share in exchange for an equivalent par value or outstanding amount of the preference shares (\$224,000 included in minority interests) and \$48,500 of obligations to shareholders, respectively, of Pacific Undersea Gardens Ltd. outstanding at May 31, 1969. The exchange may be effected by the company at any time up to five years and thirty days from closing, June 2, 1969. If the company does not effect the exchange before the fifth anniversary of the closing, the vendors may require the company within thirty days of the fifth anniversary of closing to allot them the 68,125 common shares at \$4.00 per share and to cause the preferred shares and shareholder loans of Pacific Undersea Gardens Ltd. to be redeemed, paid off or purchased.

In addition to the above, 271,099 common shares were reserved for the possible conversion of debentures at May 31, 1971.

NOTE 8 — Contributed surplus:

Contributed surplus comprised the following:

	May 31	
	1971	1970
Premium on issue of 6% first preference shares	\$ 15,714	\$15,714
Discount on pur- chase of 203,681 6% first pre- ference shares	<u>163,964</u>	<u>—</u>
	<u>\$179,678</u>	<u>\$15,714</u>

On September 28, 1970 the company offered by tender to purchase all of the outstanding 6% first preference shares for \$1.545 per share, being approximately 10% above their then bid price on the Vancouver Stock Exchange. These shares were carried in the accounts at their par value of \$2.35 per share. Shareholders tendered 203,681 preference shares for purchase and cancellation under this offer. The company purchased these shares for \$314,687 out of the proceeds of a debenture obtained for this purpose. Payment of the final instalment of \$82,491 to the former preference shareholders is due September 30, 1971. The difference between the purchase price of these shares and their aggregate par value, amounting to \$163,964, has been included in contributed surplus.

NOTE 9 — Income taxes:

The companies follow the tax allocation basis of accounting for income taxes recommended by the Canadian Institute of Chartered Accountants, which relates the provision for income taxes to the accounting income for the period. Accordingly, income taxes otherwise payable by the company and its subsidiaries which have been deferred by claiming deductions for tax purposes in excess of related amounts recorded in the accounts have been provided for in the accompanying consolidated statement of earnings. One subsidiary incurred losses during the year ended May 31, 1971 for which no recognition of potential tax reductions has been made in the accounts. These losses and accumulated losses carried forward from prior years, together aggregating \$262,866 are available for carry forward to future years.

One of the company's subsidiaries has received a notice of deficiency for U.S. \$46,766 from the Internal Revenue Service and U.S. \$4,573 from a state taxing commission, arising out of an examination of its federal and state income tax returns through March 31, 1969. The basis for the deficiency notice is the Internal Revenue Service's contention that the useful lives of certain fixed assets should be 25 years and that the assets do not qualify for investment tax credit. The company disagrees with

the Internal Revenue Service and is contesting the deficiency. No provision for possible additional tax liability has been made in the accompanying financial statements.

NOTE 10 — Depreciation and amortization:

Depreciation of buildings, tramway, chairlifts and other mountain facilities has been calculated at straight line rates ranging from 5% to 20%. The undersea gardens' vessels, machinery and equipment are being depreciated on a straight line basis over ten years, being the estimated economic life of the vessels. In all cases, depreciation has been taken on additions from the time they enter service.

The patents are being amortized in equal annual amounts over their remaining life.

NOTE 11 — Earnings (loss) per share:

Basic earnings (loss) per share, on a weighted average basis with respect to shares issued in each year, amounted to \$.056 per share for the year ended May 31, 1971 and (\$.04) per share for the year ended May 31, 1970.

Fully diluted earnings per share for the year ended May 31, 1971 amounted to \$.051. In making the computation, only potential common stock issuances which would have a dilutive effect have been taken into account. No recognition has been given to the effect of other potential conversions and stock options and shares issuable under the five year warrants since, at the present level of net earnings, these would not have a dilutive effect on net earnings per common share. Fully diluted earnings per share computations are not applicable in respect of the year ended May 31, 1970 because it was a loss year.

NOTE 12 — Remuneration of directors:

Remuneration of directors, in their capacities as officers and directors of the companies, amounted to \$43,927 for the year ended May 31, 1971.

AUDITORS' REPORT

To the Shareholders of
Grouse Mountain Resorts Ltd.:

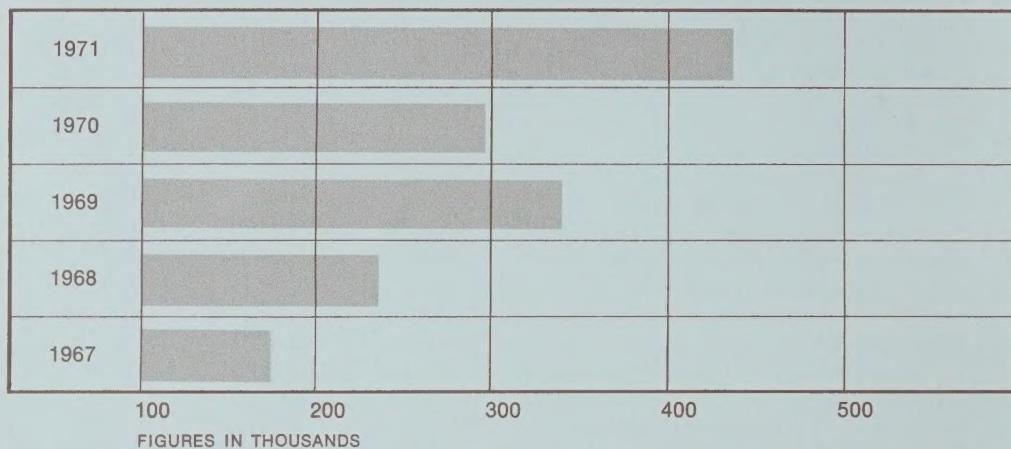
We have examined the consolidated balance sheet of Grouse Mountain Resorts Ltd. and subsidiary companies as at May 31, 1971 and the consolidated statements of earnings and deficit and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at May 31, 1971 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to a change in the method of accounting for certain ski slope maintenance expenditures as described in Note 2 to the consolidated financial statements.

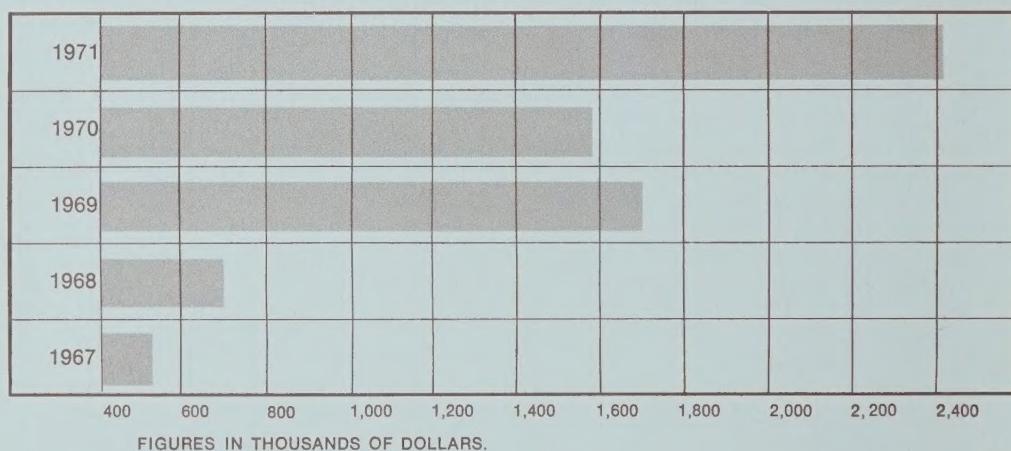
**PRICE WATERHOUSE & CO.,
Chartered Accountants.**

August 31, 1971
Vancouver, B.C.

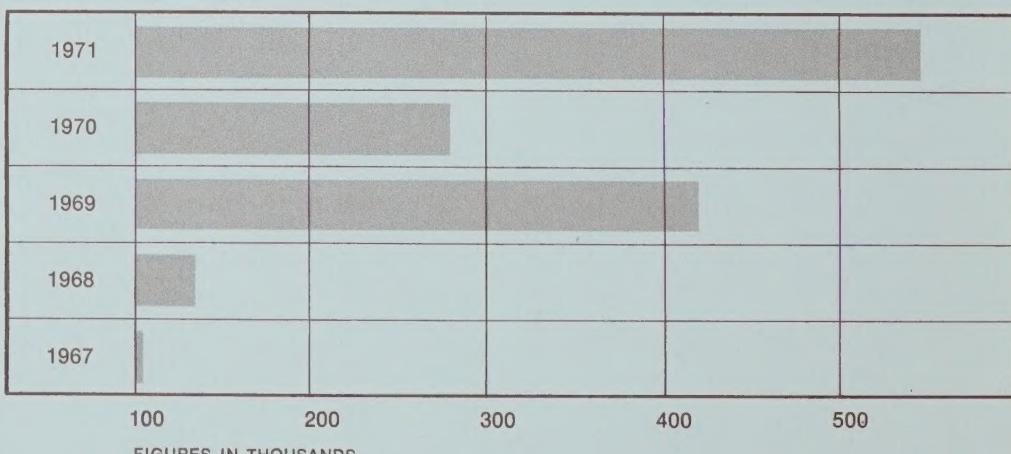
Visitors to Grouse Mountain



Consolidated Gross Revenue



Consolidated Cash Flow from Operations



UNDERSEA GARDEN LOCATIONS

Victoria, B.C.

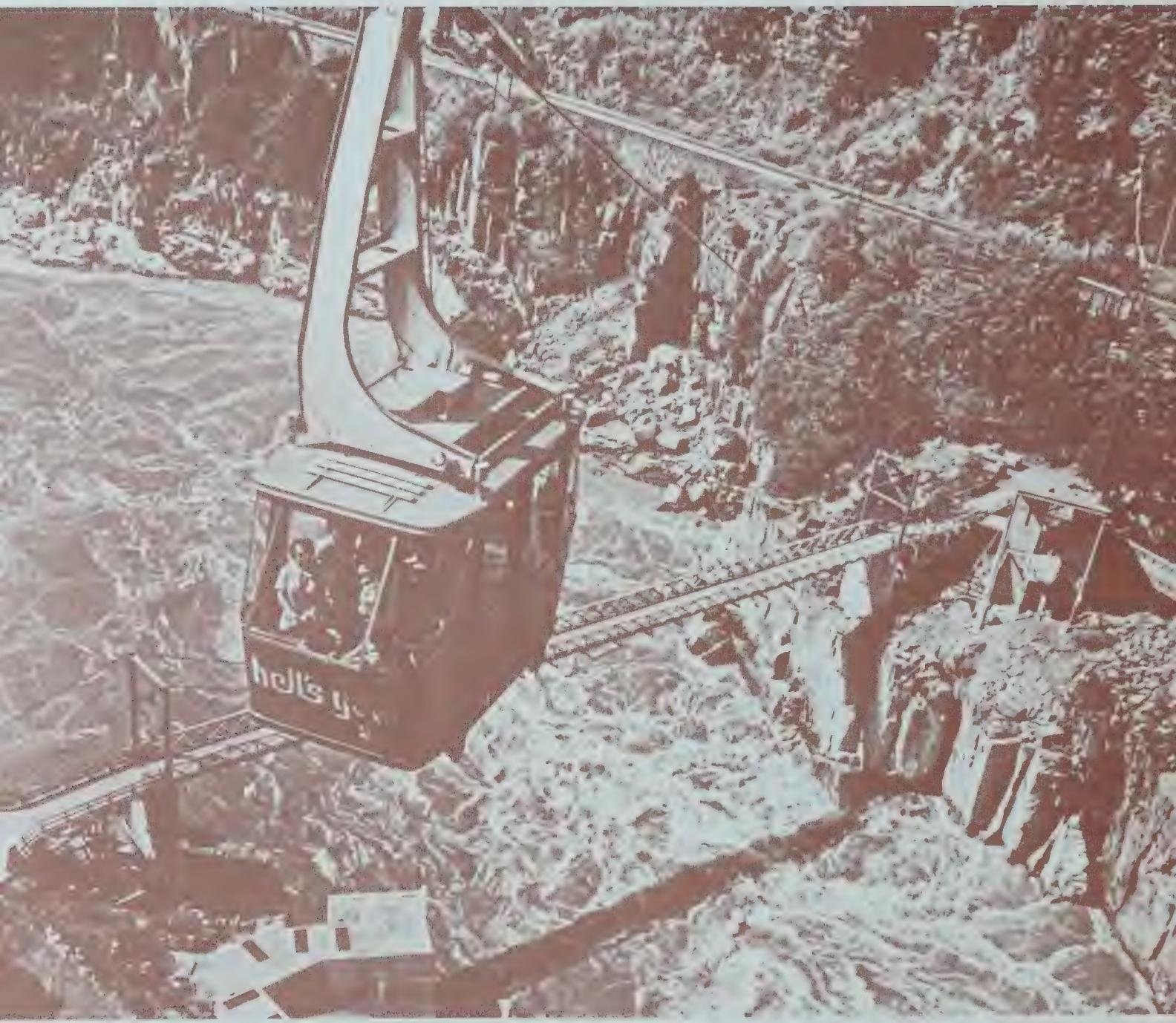


Crescent City, California



Newport, Oregon

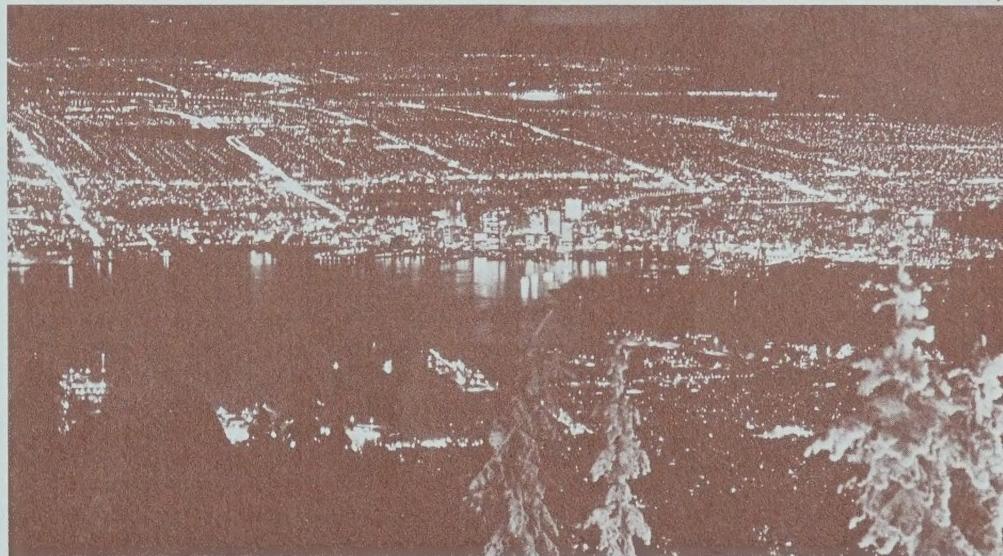
HELLS GATE AIRTRAM



The Hells Gate Airtram carries visitors safely across the boiling waters of the Fraser River to view the famous fish ladders.

The complex consists of the tramway itself, an educational display on the life cycle of salmon, provided by the International Pacific Salmon Fisheries Commission, a refreshment bar and a souvenir and gift shop.

FRONT PAGE SHOTS



This year the local newspapers gave Grouse Mountain a great deal of cooperation and exposure. Pictured below are some of the more spectacular shots. Each one was used as a front page photograph.

1. Ski Tiger Nancy Greene Raine and husband Al take twins . . . *Vancouver Sun*, July 7, 1970. Photo by Deni Eagland.

2. Picking the last of the blueberries . . . *Vancouver Sun*, Oct. 28, 1970. Photo by Deni Eagland.

3. The Winter Scene – Ski Supplement . . . *Lions Gate Times*, Nov., 1970. Photo by Frank Grundig.

4. Crystal Crisp Lights . . . *Vancouver Sun*, March 15, 1971. Photo by Dani Scott.

5. Hot Air Balloon carrying Bonhomme . . . *Province*, April 5, 1971. Photo by Mike Johnstone.

6. Super skier soars . . . *Vancouver Sun*, April 6, 1971. Photo by Deni Eagland.



CELEBRITIES

Among the stream of celebrities to visit Grouse Mountain this year were:
1. Singer Buddy Knox, 2. Singer and recording star Neil Diamond, 3. Television star Ed Nelson, 4. Entertainers Sandler and Young, 5. The Mayor of Chiba, Japan Kazushiei Araki, 6. Local playhouse personalities, after their wedding on the Skyride, Pat Gage and Paxton Whitehead, 7. Renowned architect Arthur Erickson and 8. the famous beloved snowman, symbol of the Quebec Winter Carnival, Bonhomme.



